Infographic

Building bridges to India’s future investment opportunities

> *“India’s strong demographics and role in the geopolitical arena make it a long-term opportunity for global investors.”*

> *“The government’s attitude has changed significantly since Covid-19: it is now more concerned with the ability of its expenditure to multiply growth.”*

India’s typical long-term story focuses on its demographics, urbanisation, digitalisation, rising middle class, and consequently the size of wallets. These features have been in place during the past decade, and will help propel growth for many years. But **new features are emerging that make an even more compelling case to remain invested in India; the country’s macro-fundamentals are well positioned for a multi-year improvement in economic output and earnings:**

1 A cleaner slate for Indian corporates and lenders.

Over the past decade, Indian corporates have strengthened their balance sheets and reduced their leverage. Issues regarding stressed assets in the Indian banking system have also been ironed out, and banks now sit on strong capital adequacy ratios of around 16%. Significantly lower interest rates, tax incentives, accumulated financial savings among the upper-middle classes, and investments in the property market drove a healthy buying of residential real estate. Policy in the coming decade should focus on catalysing green-field investments in newer sectors and industries.

2 Production-Linked Incentives to boost investments.

The Production Linked Incentive (PLI) scheme, which since its inception in March 2020 has been extended to 14 sectors, aims to increase manufacturing, reduce dependency on China, and promote exports. 6bn US dollars (USD) of investments were made leading up to FY22. The scheme provides select companies with incentives to boost manufacturing activities and aims to build entire value chains domestically in some sectors. While there may be some roadblocks along the way, these initiatives should create significant investment opportunities.

3 The benefits of ‘China+1’ and a revised tax regime.

India’s strategy to diversify businesses away from China has increased its share in world exports, particularly in the chemicals, textiles, electrical, and transport equipment sectors. Initiatives like the National Logistics Policy (NLP) and National Infrastructure Pipeline (NIP), have also boosted the flow of orders for industries focused on infrastructure. The government’s increased tax revenues and implementation of better compliance measures have helped it to close loopholes in the Indian taxation system, and an increase in the tax-to-GDP ratio could spur new infrastructure investments.

Last 10 years	**+20bp** share of world exports in the last two years.	**-3.9%** net NPAs held by banks, FY18-FY22.	**-19%** corporate debt-to-GDP, 2012-2022.
Next 10 years	**4.5%** FY26 deficit target (6.4% of GDP in FY23).	**33bn USD** subsidies planned to support PLI.	**65bn USD** total PLI investments envisaged.

Source: Amundi Institute. NPA: Non Performing Assets.

Infographic

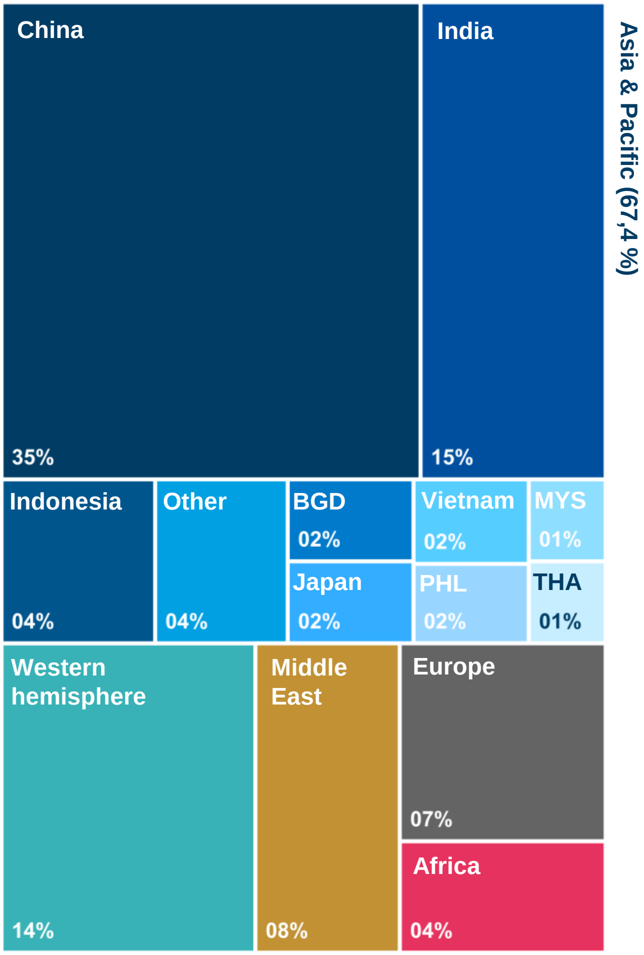
Short-term outlook: boosting capex while pursuing fiscal consolidation

India's short-term outlook involves increasing capital expenditures while pursuing fiscal consolidation. In FY23 **growth** settled on a still strong 7.1% YoY increase, and is expected to mildly decline above the potential growth rate in FY24 at around 5.6%. Domestic demand has been driving the recovery, and private investments are gaining momentum. **Inflation** is erratic, primarily due to the price formation mechanism in the food component, and is expected to fluctuate around the upper 6% band of the Reserve Bank of India's (RBI) target for the rest of the fiscal year. The **policy mix** appears much more sound than in the past, with monetary policy aimed at achieving neutral real rates, and a commitment to capital expenditures in the FY24 budget.

Geopolitical role: strong cards to play, despite domestic woes

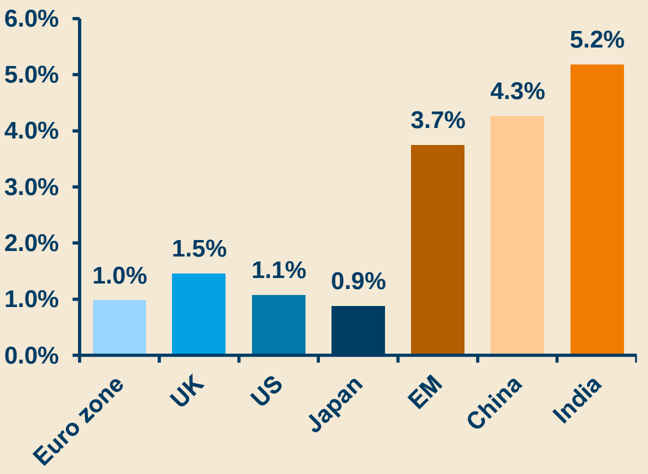
Domestic issues have raised concerns over the stability of India's politics and how solid positive expectations for 2023 actually are. However, despite these issues, it is unlikely that India's new-found power in 21st century geopolitics will weaken. India maintains **strategic geopolitical 'non-alignment'** and benefits from maintaining relationships with various powers, including Russia, which provides it with weapons and serves as a counterweight to China. India is benefitting from the Western resolve to disentangle from China, and the US and India recently agreed on new tech and defence initiatives. Despite its domestic woes, India remains a potentially powerful broker between the East and the West, the North and the South.

Global growth contributions for 2023



Source: Amundi Institute on IMF, World Economic Outlook, April 2023 data. BGD: Bangladesh. MYS: Malaysia. PHL: Philippines. THA: Thailand.

Average expected GDP growth, 2023-2033



Source: Amundi Institute central scenario forecasts as of 3 May 2023.

Transforming future challenges into opportunities

- **Commodities:** Expanding domestic renewable energy capacity can reduce dependence on imported energy;
- **Policy:** Improved governance and political stability can attract foreign investments, while limiting state deficits fosters greater fiscal discipline;
- **Employment:** Investing in job creation and skills development can fully realise India's demographic dividend and contribute to economic growth;
- **Net Zero:** Greater investments in clean energy technologies can reduce global divergences and expedite the transition to a low-carbon economy.

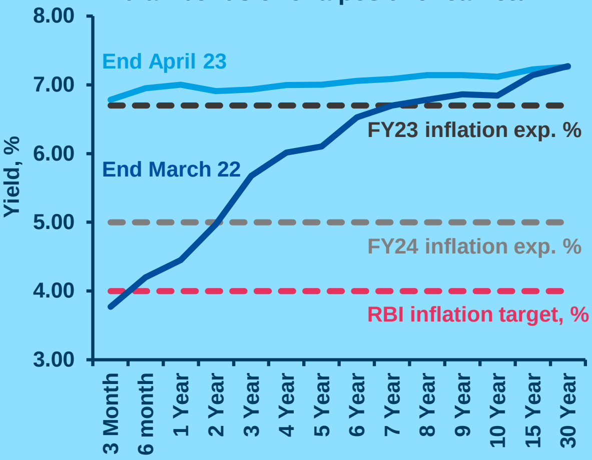
Infographic

Investment opportunities across major asset classes

Fixed income

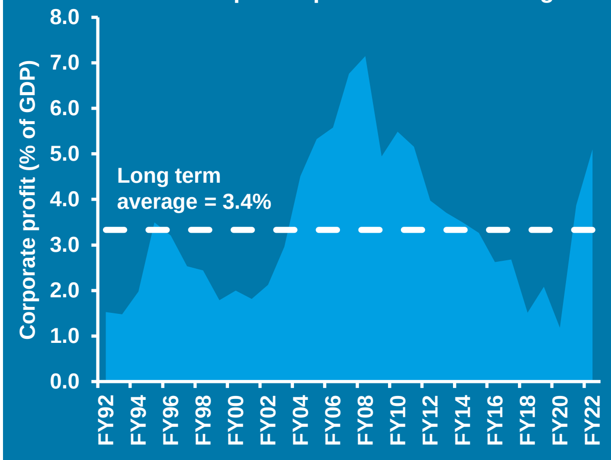
More favourable growth-inflation prospects, and the cumulative effects of previous interest rate decisions, suggest we are reaching a pause in policy rate actions. The outlook for fiscal consolidation is also positive as tax buoyancy is increasing, and the country is better positioned to withstand external pressure and volatility. While short-term challenges may persist, these factors should provide resilience and the potential for real positive returns from Indian fixed income in the coming year. Yields are attractive on both a relative and absolute basis, with positive real rates for the majority of tenors.

Indian bonds offer a positive real return



Source: Amundi Institute on Bloomberg data as of 30 April 2023.

Indian corporate profits remain strong



Source: Amundi Institute on CMIE Economic Outlook as of 11 April 2023.

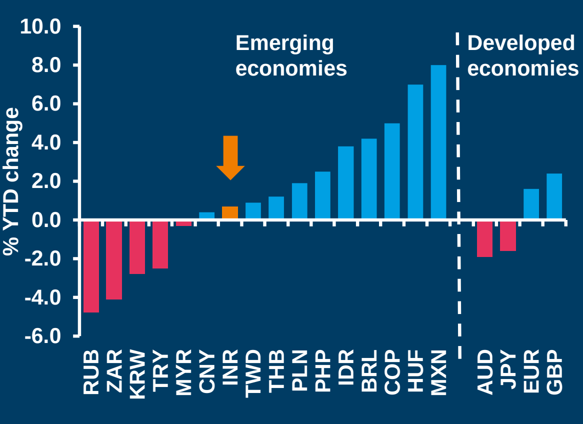
Equity

Indian equities offer a diversification opportunity in the EM space, particularly in light of their historically low correlation with Chinese equities. Improved bank balance sheets, sound corporate balance sheets, leaner cost structures, and production linked incentives should support India's profit cycle. The emergence of new industries, 'China plus one', and a real estate construction revival also suggest a strong medium-term corporate capex cycle. The shift in market dynamics towards cyclical industries, value stocks, and mid- and small-capitalisation companies shows how investor preferences are shifting towards segments that are connected economically.

Currencies

The anticipated broad US dollar correction in 2023 is expected to benefit EM currencies like the Indian rupee (INR). India's smaller current account deficit, reduced inflation, relatively better domestic growth, and maturing interest rate cycle are also likely to have a positive impact. The potential for lower oil prices could also reduce India's import bill and improve its current account deficit. While there are risks in the near term, the RBI's active interventions over the past eight years have reduced rupee volatility and hedging costs.

Most EM currencies have appreciated in 2023



Source: Amundi Institute on Bloomberg data as of 31 March 2023.

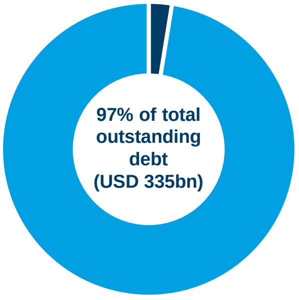
Three routes for investing in Indian bonds

1 Fully Accessible Route

Best route for gaining exposure to Indian government securities defined by the RBI. From FY21, all new issuances of 5, 10 and 30-year government securities are included. Under consideration by many bond index providers for inclusion.

326bn USD

available

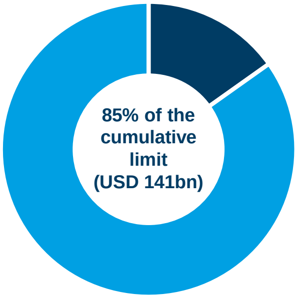


2 Medium-Term Framework

Investments in government securities, SDLs and corporate bonds are permitted with restrictions of minimum maturities and an annually reviewed cumulative investment cap. However, there are no sales limitations or lock-ins.

119bn USD

available

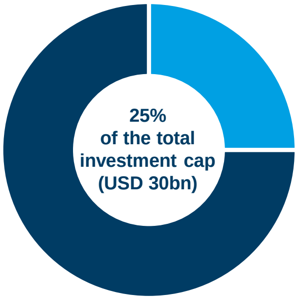


3 Voluntary Retention Route

Preferred route for corporate bonds; if investors keep >75% of the allocated sum invested in India for a minimum of 3 years, they will be exempt from macro-prudential and other regulatory norms applicable to FPIs in debt markets.

8bn USD

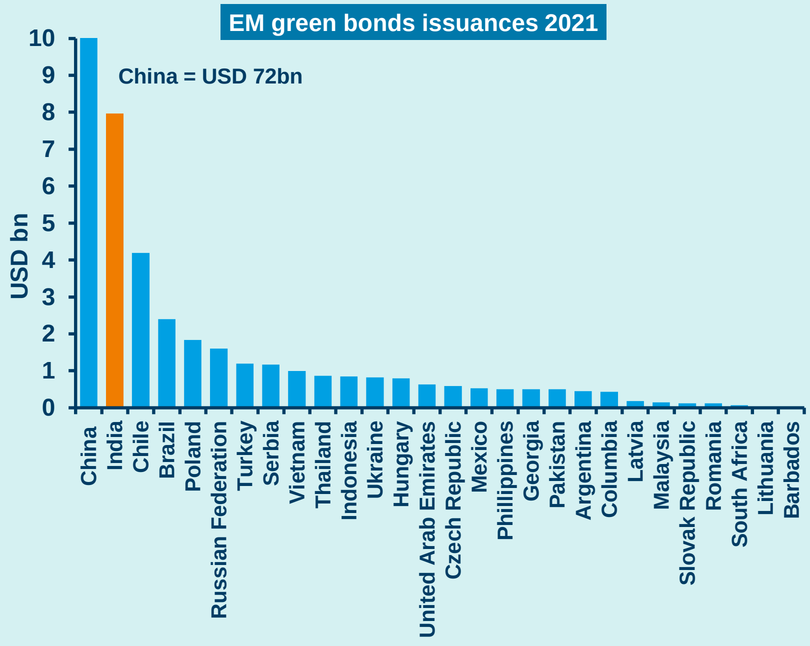
available



Source: Amundi Institute. FPI: Foreign Portfolio Investments. RBI: Reserve Bank of India. SDL: state government securities.

India's green bonds initiative is on the rise

Green bond financing is picking up in India. The framework for the issuance of sovereign green bonds (SGrBs) was announced in November 2022, and in January 2023 the RBI sold its first batch amounting to USD 965.7mn, with maturities in 2028 and 2033 and having cut-off yields of 7.10% and 7.29% respectively; a few basis points lower than those of government securities of equal length. **Auctions for the current fiscal year will amount to USD 2bn, and the money raised will be used to fund eco-friendly initiatives,** such as pollution prevention, energy efficiency, climate change adaptation, sustainable water and waste management, and green buildings. Investments in solar, wind, biomass and hydropower energy projects will also be made. **The issuance of green bonds will increase India's credibility in the global green finance ecosystem** and encourage the country to stick to its Nationally Determined Contributions (NDC) goals.



Source: Amundi Institute on Climate Bonds Initiative data.

IMPORTANT INFORMATION

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